

- Exports up 7.7% in June as shipments to overseas destinations rise
- Housing starts jump 19.4% in July
- New housing prices continue to climb

## The Economy

- Exports of BC products expanded 7.7% (*seasonally adjusted*) in June, building on a 1.6% increase in the previous month. The export growth reflected a big jump (+26.2%) in the value of industrial & consumer goods shipped from the province, much of it destined for overseas markets. At the same time, the value of energy (+3.2%) and forest (+2.9%) product exports increased in June, marking the first significant advance since December. Exports of machinery, equipment & automotive products (+6.1%) were also up but the value of agriculture & fish exports fell 4.4%.

US-bound exports were off 1.5%, as shipments of energy (-1.4%) and forest (-6.9%) products south of the border declined. Together, these account for about 60% of the total value of exports to the US. Exporters of agriculture & fish products also saw the value of their US shipments drop off (-1.3%) in June, but exports of industrial & consumer goods (+6.4%) and machinery, equipment & automotive products (+4.3%) were up from May.

Export growth in June was largely due to gains in overseas markets, with shipments to these destinations rising 23.0%. Exports of most products were up significantly from May levels, increasing at rates ranging from 9.2% for energy products to 44.8% for industrial and consumer goods. However, overseas exports of agriculture & fish products fell 10.4%.

Canadian exports rose 1.1% in June, largely due to increased shipments of energy (+4.5%) and automotive (+2.4%) products

*Data Source: Statistics Canada & BC Stats*

- Housing starts in the province continued to rise in July, jumping 19.4% (*seasonally ad-*

*justed*). This was the third time since the beginning of the year that starts have increased at double-digit rates.

Year-to-date, starts were well above (+15.7%) the levels recorded during the first seven months of 2005. Although the increase so far this year is not quite as strong as what was seen during the early years of the housing boom, if building activity continues at this pace, last year's respite from the frenetic pace of building activity in the province could be short-lived. During the first seven months of 2005, starts were just 1.0% higher than in the same period of 2004.

*Data Source: CMHC & BC Stats*

- Canadian housing starts were flat in July. New home building activity dropped off in both Quebec (-10.4%) and Alberta (-6.6%), while Ontario (+3.6%) posted a modest increase in the number of starts. Starts were volatile in the rest of the country, with big gains, and similarly big declines, seen in parts of Atlantic Canada and Manitoba.

*Data Source: CMHC*

- The value of building permits issued by BC municipalities dropped 4.9% (*seasonally adjusted*) in June after rebounding (+17.2%) in the previous month. Permits for residential projects were up 8.7%, but the value of permits issued for other types of buildings plunged 26.0%. Non-residential permits have been seeing a sawing since March, and the latest decline followed a whopping 62.6% increase in May. Permits issued for industrial projects more than doubled (+104.5%) in June, but planned spending on commercial (-21.6%) and institutional (-53.2%) projects was down from May.

Building permits increased 17.6% in the Vancouver area, but Victoria (-4.6%) and Abbots-

### Did you know...

Nine out of ten British Columbians think stepping into a really clean shower starts their day off right, but more than half (53%) say there is usually grime or soap scum on their shower walls. Seven out of ten say cleaning the shower is a dreaded chore. *Data Source: Ipsos-Reid*

ford (-40.7%), BC's other census metropolitan areas, both posted declines in the value of permits issued. *Data Source: Statistics Canada*

- **Canadian permits fell 1.4% in June, as three of the four largest provinces posted declines.** Alberta (+25.2%) bucked the trend, posting increases in both residential (+8.1%) and non-residential (+48.3%) permits. Permits were down in the other Prairie provinces and parts of Atlantic Canada. *Data Source: Statistics Canada*

- **The cost of new housing in BC's two biggest cities continued to climb in June.** The new housing price index was up 5.2% (year-over-year) in Vancouver, and increased even more (+5.4%) in Victoria. High land prices remained a significant inflationary factor in the capital city. The cost of land for new construction was 12.3% higher than in the same month last year, while the value of buildings increased 1.8%. In Vancouver, land prices (+0.7%) remained less of an inflationary factor than building costs (+7.4%).

Nationally, the new housing price index was up 9.8% from the June 2005 level. Residents of Calgary (+49.2%) and Edmonton (+28.1%) continued to face sharply higher prices for new housing. Since 1997, the cost of new housing in Calgary has more than doubled (+117%), while new house prices in Edmonton have risen 75%. By comparison, new housing prices in Vancouver (+11%) and Victoria (+18%) are only slightly higher than they were nine years ago. The national increase since 1997 is 42%.

*Data Source: Statistics Canada*

### Second Quarter in Review

- **Exports of BC products slipped 4.2% (seasonally adjusted) during the second quarter, after dropping 5.6% earlier in the year.** The downturn in exports was largely due to lower shipments to the US (-8.7%). Exports to other destinations were up 3.7% over first quarter levels. Canadian exports were off 2.7% in the second quarter. *Data Source: Statistics Canada & BC Stats*

- **During the first six months of the year, exports of BC products were up 4.7% (unadjusted) over the same period of 2005.** The

increase was above the national average (+4.2%), but lower than in the major energy-exporting provinces, where exports year-to-date reflect significant growth in the value of energy products. Newfoundland (+26.2%), Alberta (+14.9%) and Saskatchewan (+12.8%) have all seen double-digit increases in exports year-to-date. *Data Source: Statistics Canada*

- **Year-to-date, the value of building permits issued in the province was 12.0% higher (unadjusted) than in the first six months of 2005.** Planned spending on construction projects was up in all regions of the province except Nechako (-24.1%), where a big drop in the value of industrial projects (-91.7%) offset increases in permits issued for other types of projects. Among the other regions, Thompson-Okanagan (+5.5%) and Vancouver Island/Coast (+8.6%) were the only ones to post less than double-digit gains in permits issued. Northeast (+84.9%) recorded the biggest increase, followed by North Coast (+59.2%), Cariboo (+34.7%), Kootenay (+14.7%) and Mainland/Southwest (+12.7%).

*Data Source: Statistics Canada & BC Stats*

### Employer Businesses

- **The number of employer businesses in the province edged up 0.4% (seasonally adjusted) to 166,891 in the second quarter, as a four-year-long expansion in the number of businesses with payroll deduction accounts continued.** Canada-wide, the number of employer businesses was virtually unchanged from the first quarter, at 1,067,000.

Since the second quarter of 2002, the number of employer businesses in BC has increased by 18,018, more than in any other province except Ontario (+27,503). Alberta (+17,436) was the only other province with a similarly large gain over the four-year period. Nationally, the number of employer businesses has risen by 70,211, with most of the increase occurring in Ontario, BC and Alberta. *Data Source: Statistics Canada*

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Contact: Dan Schrier (250) 387-0376

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## Breaking the Interprovincial Trade Barrier

The federal government's announcement in April of a potential agreement to end the softwood lumber dispute with the United States overshadowed another trade deal that could potentially offer BC significant economic benefits. British Columbia and Alberta signed a free trade agreement aimed at eliminating barriers to trade, investment and labour mobility between the two provinces. Specific elements of the deal include the streamlining of business registration and reporting requirements, open access to government procurement, and the recognition of occupational certifications across the two provinces. The agreement is set to begin in April 2007 with a two-year transition period before it comes into full effect.

*BC and Alberta are moving toward barrier-free trade*

The deal struck by BC and Alberta has raised interest among the other provinces, signalling that it may be the beginning of the end of interprovincial trade barriers in Canada. These trade barriers do not come in the form of tariffs (which are expressly prohibited under Canada's constitution), but rather result from rules and regulations that differ across provinces. These differences often lead to duplication, such as the requirement for businesses to register in more than one province, or restrict labour mobility such as through the need for different certifications in different provinces. These are the types of situations that the BC-Alberta agreement attempts to address.

Interprovincial trade comprises a substantial portion of BC's economy. In 2005, the value of BC exports of goods and services to other countries was almost \$48 billion, while BC exports to other provinces were valued at more than half that, at almost \$26 billion.<sup>1</sup> BC also imports a significant amount of goods and services from other provinces. In fact, BC has a trade deficit in both goods and services with the rest of Canada. In other words, a higher value of goods and services are imported into the province from elsewhere in the country than are exported from BC to the rest of Canada. While the deficit in interprovincial trade in goods has been declining over the last several years, the services trade deficit has been climbing. Over the last three years, BC has also had a deficit in merchandise trade with other countries; however, the province has a solid surplus in international trade in services.

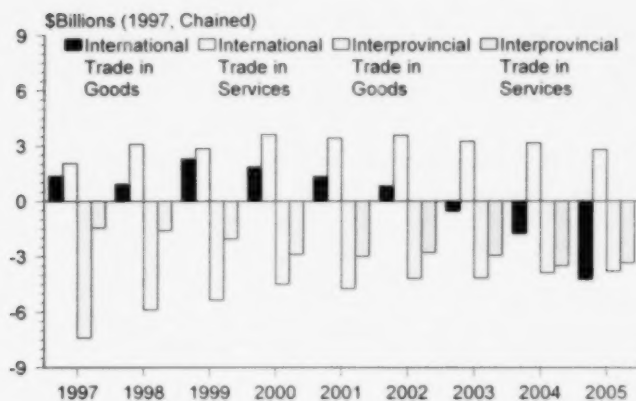
*BC has a deficit in trade with the rest of Canada, both in goods and in services*

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<sup>1</sup> Note that these data are from the Economic Accounts and are on a balance of payments basis and therefore do not match international trade data in the tables of this report, which are on a customs basis.

One of the primary reasons for the surplus in trade in services with other countries is BC's location, since a substantial share of BC's service exports is derived from the transportation, storage and handling of goods. A large portion of the merchandise traded between Canada and countries of the Pacific Rim is moved through BC via its ports, railways, highways and airports and the transportation and storage of these goods constitutes a service export.

With the exception of trade in services to other countries, BC's trade balance is usually in deficit

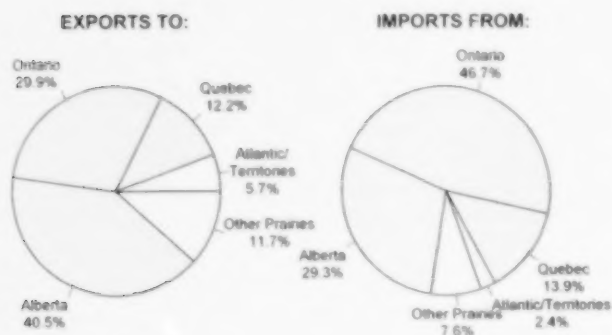


BC's only trade surplus is in international trade in services

The bulk of BC's interprovincial trade is with just three provinces: Ontario, Alberta and Quebec. Between 1997 and 2002, about 83% of BC's interprovincial exports and 90% of interprovincial imports were traded to and from these three provinces. Approximately 30% of BC's exports to other provinces were destined for Ontario, while just under half (47%) of imports of goods and services originated in Ontario. Alberta was the destination of 40% of BC's interprovincial exports and the origin of 29% of imports. Given that central Canada is the country's manufacturing hub and Alberta is right next door, it is not all that surprising that these provinces dominate the interprovincial trade picture with BC. The significant value of trade with Alberta should be enhanced even further when the new trade agreement comes into effect.

Ontario, Quebec and Alberta are responsible for the bulk of interprovincial trade with BC

1997-2002 Average



*Most of BC's interprovincial trade is with just three provinces: Ontario, Alberta and Quebec*

Source: Statistics Canada & BC Stats

Estimates of how much interprovincial trade barriers cost the Canadian economy vary, but business leaders across the country believe these barriers are seriously damaging to the economy. In a COMPAS poll published in September 2004, 32% of business leaders felt that interprovincial barriers were worse than the barriers to Canada-US trade, with a further 22% feeling they were about the same.<sup>2</sup> Barriers to labour mobility topped the list in terms of causing the most harm to the economy with 72% of respondents ranking restrictions relating to labour as serious or very serious.

*54% of business leaders polled feel that interprovincial trade barriers are at least as serious as barriers to Canada-US trade*

These non-tariff interprovincial trade barriers have been an issue for many years, which is why the provinces signed an Agreement on Internal Trade (AIT) back in 1994. However, the AIT has only had limited success in tearing down the walls to trade within Canada, partly because of a dispute resolution mechanism that is too complicated, but mainly because it is not legally binding. The BC-Alberta agreement may be the first step toward creating a more workable version of a nation-wide agreement.

<sup>2</sup> Inter-Provincial Trade Barriers: A BDO Dunwoody/Chamber Weekly CEO/Business Leader Poll by COMPAS in the Financial Post for Publication September 13, 2004.



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| <i>BC at a glance . . .</i>   |                          |                          |
|---|--------------------------|--------------------------|
| POPULATION (thousands)  |                          |                          |
|   | Apr 1/06                 | % change on one year ago |
| BC  | 4,292.2                  | 1.3                      |
| Canada  | 32,501.1                 | 1.0                      |
| GDP and INCOME  |                          |                          |
| (BC - at market prices)   | 2005                     | % change on one year ago |
| Gross Domestic Product (GDP) (\$ millions)  | 168,011                  | 6.8                      |
| GDP (\$ 1997 millions)  | 144,028                  | 3.5                      |
| GDP (\$ 1997 per Capita)  | 33,853                   | 2.2                      |
| Personal Disposable Income (\$ 1997 per Capita)   | 20,693                   | 2.5                      |
| TRADE (\$ millions, seasonally adjusted)  |                          |                          |
|   |                          | % change on prev. month  |
| Manufacturing Shipments - May   | 3,769                    | 0.9                      |
| Merchandise Exports - Jun   | 2,923                    | 7.7                      |
| Retail Sales - May  | 4,491                    | 1.3                      |
| CONSUMER PRICE INDEX  |                          |                          |
| (all items - Jun 2006)  | % change on one year ago | 12-month avg % change    |
| BC  | 2.2                      | 2.0                      |
| Vancouver   | 2.1                      | 1.8                      |
| Victoria  | 1.9                      | 2.1                      |
| Canada  | 2.5                      | 2.5                      |
| LABOUR FORCE (thousands)  |                          |                          |
| (seasonally adjusted)   | Jul '06                  | % change on prev. month  |
| Labour Force - BC   | 2,304                    | 0.6                      |
| Employed - BC   | 2,196                    | 0.2                      |
| Unemployed - BC   | 108                      | 11.3                     |
|   | Jun '06                  |                          |
| Unemployment Rate - BC (percent)  | 4.7                      | 4.3                      |
| Unemployment Rate - Canada (percent)  | 6.4                      | 6.1                      |
| INTEREST RATES (percent)  |                          |                          |
|   | Aug 9/06                 | Aug 10/05                |
| Prime Business Rate   | 6.00                     | 4.25                     |
| Conventional Mortgages - 1 year   | 6.60                     | 4.90                     |
| - 5 year  | 6.95                     | 5.80                     |
| US/CANADA EXCHANGE RATE   |                          |                          |
|   | Aug 9/06                 | Aug 10/05                |
| (avg noon spot rate) Cdn \$   | 1.1199                   | 1.2115                   |
| US \$ (reciprocal of the closing rate)  | 0.8929                   | 0.8262                   |
| AVERAGE WEEKLY WAGE RATE  |                          |                          |
| (industrial aggregate - dollars)  | Jul '06                  | % change on one year ago |
| BC  | 721.25                   | 3.2                      |
| Canada  | 729.45                   | 3.9                      |
| <b>SOURCES:</b>   |                          |                          |
| Population, Gross Domestic Product, Trade, Prices, Labour Force, Wage Rate } Statistics Canada          |                          |                          |
| Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics                              |                          |                          |
| For latest Weekly Financial Statistics see <a href="http://www.bankofcanada.ca">www.bankofcanada.ca</a> |                          |                          |

## BC and Regional population projections

Projected population to 2031 for British Columbia and a variety of small regions within B.C. (P.E.O.P.L.E. 31).

[www.bcstats.gov.bc.ca/data/pop/pop/popproj.asp#admin](http://www.bcstats.gov.bc.ca/data/pop/pop/popproj.asp#admin)

## Regional employment projections

BC Stats, with the financial assistance of the Ministry of Advanced Education, developed the Regional Employment Projection Model (REPM), designed to project industrial and occupational employment in regions of the Province of British Columbia.

[www.bcstats.gov.bc.ca/data/lss/rep.m.asp](http://www.bcstats.gov.bc.ca/data/lss/rep.m.asp)

## Socio-Economic Profiles & Indices 2005

Updated annually, this body of work provides a coherent and relatively comprehensive measurement of social stressors at sub-provincial areas. Charts, tables and, within the indices, consolidated rankings, make the information broadly accessible.

[www.bcstats.gov.bc.ca/data/sep/index.asp](http://www.bcstats.gov.bc.ca/data/sep/index.asp)

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